

DCMC-OG

JUL 8 1998

MEMORANDUM FOR DIRECTOR, DEFENSE REFORM INITIATIVE OFFICE

SUBJECT: Success Stories for Management Reform Memoranda #5 and #10

Forwarded for your review are the requested success stories for MRMs 5 and 10.

Should you have any questions or concerns regarding information contained in the attached reports, please contact Ms. Janice Hawk, (703) 767-3433 for MRM #5, and Ms. Ella E. Studer, (703) 767-3398 for MRM #10.

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TIMOTHY P. MALISHENKO

Major General, USAF

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Attachments

cc:

Deputy Under Secretary of Defense (Acquisition Reform)

Principal Assistant to the Deputy (Acquisition Reform)

Management Reform Memorandum #5 (MRM #5)
DISPOSAL OF EXCESS GOVERNMENT-OWNED PROPERTY

I. SUMMARY OF REFORM ISSUE:

Dr. Hamre, Deputy Secretary of Defense, issued MRM #5 on May 21, 1997, and tasked the Defense Contract Management Command (DCMC) to lead the Department of Defense (DoD) team to dispose of excess and underutilized property in the possession of defense contractors by January 1, 2000.

MRM #5 team determined classes of property (materiel, special tooling, special test equipment, and equipment) to be examined and set the review universe to include all contracts with over \$3M of government property.

Two goals were set for DoD:

- a. By June 30, 1998, review 100% of the contractors' systems with contracts having more than \$3M of government property.
- b. Increase disposition of excess government property by 20% per year in fiscal years (FY) 1998 and 1999 for a total disposition of \$7B by December 31, 1999.

Mr. Longuemare, Acting USD(A&T), issued a Memorandum to the Secretaries of the Military Departments and Directors of Defense Agencies on September 25, 1997, that included a Disposition Review Plan for all Program Managers (PM), Property Managers (PM), Procuring Contracting Officers (PCO), Contract Administration Offices (CAO), and Defense Contractors to follow.

II. HISTORY OF ISSUE:

The amount of government property in the possession of defense contractors has risen over the last decade. It was the findings of a Government Property Integrated Process Team and special reviews completed by DCMC that contractors were in fact maintaining excess government property in their possession. There were many reasons this was happening, but the predominant ones are: a just-in-case mentality by the PCOs and PMs, i.e., it is easier to avoid making a decision by the PCOs, PMs, and/or contractors; the PCOs or PMs do not bear the cost since property management is an indirect charge to the contract; and finally, some contractors want to retain government property for commercial purposes (they do have to pay rent).

III. CURRENT STATUS OF TRANSFORMATION:

The MRM #5 team members, the defense community, and contractors have been working issues to achieve the goals and to make process improvements to the disposal process.

In February 1998, the Director of Defense Procurement (DDP) issued 3 class deviations to FAR Part 45. For excess property reported to GSA, the screening time frames were reduced from 60 days to 36 days. This change will be

incorporated in the FAR 45 Rewrite. For property in poor and salvage condition along with special test equipment without standard components, GSA screening is no longer required. This deviation is in effect until March 2000. The third deviation waives GSA screening for all property in scrap condition. This change will be incorporated in the FAR 45 Rewrite. All of these deviations will accelerate the disposal process.

In June 1998, DDP issued a Departmental Memorandum to lower the level of approval required for the use of auctions, spot bids, or retail sales of surplus contractor inventory, from the headquarters of the contract administration activity to the commander of the contract administration office. The plant clearance process will be accelerated when these types of sales are authorized.

During FY97, the Defense Contract Management Command (DCMC) received (quarterly) approximately \$461M in excess contractor inventory for disposal purposes. Since the MRM #5 review process began in FY98, \$582M (26% increase) was reported during the 1st quarter; excess reported during the 2nd quarter was \$637M (an increase from FY97 of 38%); and, the most recent 3rd quarter report was \$696M (an increase from FY97 of 50%). These figures indicate that the reviews accomplished under goal #1 are achieving the desired results, and if they continue to surpass the FY97 data, goal #2 should be achieved.

As part of the MRM #5 initiative, it became apparent to the Department of the Navy (DON) that not all the players necessary for a comprehensive review of excess property were involved. In coordination with DCMC, the DON imposed a moratorium on property disposal actions. This moratorium was for 120 days until all concerned parties were identified and incorporated into a review plan that ensured that all the necessary players would review the excess property. The increasing number of legacy systems that are in use by the operational forces but no longer in production requires that those parties involved in the life cycle support of these systems have a major interest in property disposal actions and be included in the disposal review process.

DCMC has hosted training workshops for the DoD community, made presentations to defense contractors, prepared a video and held workshops for Acquisition Reform Week #3, discussed MRM #5 goals with industry associations, and held workshops during the 1998 National Education Seminar for the National Property Management Association.

IV. NEXT STEPS:

The MRM #5 team will continue to work process improvement to the disposal process while working the current issues to achieve the goals.

Management Reform Memorandum # 10 (MRM # 10)
REDESIGNING DEPARTMENT OF DEFENSE SOURCE ACCEPTANCE
POLICIES AND PROCEDURES

I. SUMMARY OF REFORM ISSUE:

A Process Action Team (PAT) was created per OUSD (A&T) memo of March 20, 1997, subject Micro-Purchases. The team was tasked to increase purchase card use for commercial micro-purchases and eliminate unnecessary government source inspection (GSI) for micro-purchases on all items. The PAT's focus was broadened by Management Reform Memorandum (MRM) #10, Redesigning DoD Source Acceptance Policies and Procedures.

II. HISTORY OF THE ISSUE:

Nearly 1.8 million separate items procured by DoD undergo quality inspection by the Defense Department inspectors. Many of these items are over coded for technical complexity or many procurements blindly require GSI.

III. CURRENT STATUS OF TRANSFORMATION:

The PAT identified two contributors of unnecessary GSI. FAR 46.402(e) requires mandatory GSI when higher-level quality requirements are contractually invoked. FAR 46.402(g) discourages destination acceptance of overseas shipments. DDP signed a Class Deviation on November 7, 1997, removing the clauses from the FAR.

Mr. Longuemare, Acting OUSD (A&T), signed the PAT's letter on September 24, 1997, directing the Military Departments and DoD Agencies to review all GSI supply items to be bought in FYs 98 and 99. During the 2nd quarter FY 98, 116K buys were reviewed and 56% of the buys had source inspection removed.

Andersen Consulting was contracted to conduct a six-month study of all government steps and costs in the source acceptance process, compared to alternative methods of assuring quality. On July 1, 1998, proposed alternative methods were briefed to the Deputy Under Secretary of Defense (Acquisition Reform), and the Principal Assistant to the Deputy. The study will be used to kick off the 912 group that will be studying how to move from managing supplies to managing suppliers.

Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma, created an Integrated Product Team consisting of Quality Assurance, Contracting, Engineering and Item Management personnel. The team examined current GSI practices, identified areas of process improvement, applied new FAR Part 46 GSI requirements, and addressed Dr. Hamre's MRM #10 concerns. These efforts resulted in a procedural guide outlining the steps taken to establish quality assurance provisions and special inspection requirements for all contracts at the Air Logistics Center. The guide's thoroughness and ease of use resulted in a streamlined inspection requirements review process at the Center.

Several procurement databases automatically added GSI to contracts. The Air Force procurement system correcting the default problem is scheduled to come online

within the next year. The Naval Inventory Control Point (NAVICP) submitted a change request to modify the current provisioning system, the Interactive Computer Aided Provisioning/Ships Provisioning System for Ships and Submarine, to limit automated GSI to only Level 1/Subsafe items.

Several policies were revised and updated. For example, Defense Supply Center Philadelphia (DSCP), Clothing & Textiles Directorate, published an updated version of DSCP Manual 4155.3, Quality Systems Requirements. It contains numerous changes resulting from substantial changes in business practices. A joint DSCP/DCMC training class is being arranged to communicate the new requirements/guidelines to all field offices. Defense Supply Center Columbus (DSCC) developed and implemented an Integrated Policy Memorandum (IPM) to provide information, guidance, and policies regarding the responsibilities for implementation of the DSCC Origin Inspection Validation Plan (OIVP). The Plan was developed to ensure all DSCC source inspection contract requirements are reviewed during FY98 and FY99, and all unnecessary origin inspection changed to destination. This procedure applies to the DSCC Quality Assurance Specialist (QAS) responsible for establishing the place of inspection (PIC) for government contract quality assurance at source or destination. The Navy has revised existing policies and procedures for invoking GSI. This includes submission of a change request to revise the provisioning system for ships/submarines to limit GSI to only Level 1/subsafe

During the supply item review, DLSC found that some items that were previously determined as not requiring source inspection were being changed by contracting officers to source during the award process. The numbers of this occurrence are much larger than previously estimated. DLSC is researching the area to determine the causes. Some anecdotal reasons that have been given are:

- FMS considerations and Basic Ordering Agreements may require source.
- Contractors are asking for source inspection because they get paid faster.
- Contractors think they have some protection such as, they can blame DCMC if there are defects, and they like to have DCMC in plant to help them out.

DLSC is researching whether the Centers are following the current policy of negotiating such requests with adequate consideration flowing to the government, on a case-by-case basis for the added cost of performance of unnecessary government quality assurance at source.

Tool/Training to personnel were provided to ensure successful implementation of MRM #10. Buying Centers conducted training/quality forums to update specialists on the class deviation and the requirements of MRM #10. This insured that personnel who had to review procurements that required GSI had the tool/knowledge necessary to execute the directive. Defense Contract Management Command (DCMC) added MRM #10 as a specific Acquisition Reform Week III topic that was briefed at breakout sessions throughout DCMC. Video and facilitation training materials were used to energize DCMC personnel in being part of the solution in reducing GSI. The following are examples of DCMC and buying centers working together to remove unnecessary GSI:

“Thanks for the heads up on one that slipped through the crack! DSCR has reviewed the NSN 5975-00-538-6260, Wall Plate Covers, technical data file and concurs with DCMDE recommendation. Criticality code was removed and it has been coded as a commercial item. The contract technical data file now calls for destination inspection in lieu of origin. What may have caused the requirement of GSI was its use on numerous weapon systems to include the Seawolf submarine, C-5A Aircraft, and T-37/T-38 aircraft support equipment. DCMDE's assistance in this arena is very much appreciated.”

“It took some discussion to have the DCMC recommendation on removing GSI on the television monitor accepted by the Center quality assurance specialist. However, the item had source inspection removed. I encourage DCMC's continued involvement in reviewing origin awarded contracts as it gives us an opportunity to remind the Center quality assurance specialists on the importance of proper coding.”

III. NEXT STEPS:

The MRM #10 team will continue to review all procurements requiring source inspection to ensure it truly requires that designation. The team will continue to report on a quarterly basis on the review until the close out report schedule for May 31, 1999.